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C O N F I D E N T I A L SECTION 01 OF 02 OTTAWA 000603

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TAGS: [ENRC](#) [ETRD](#) [EPET](#) [CA](#) [NPA](#)
SUBJECT: GOC HINTS THAT IT WILL SOON AUTHORIZE ALASKA GAS
PIPELINE UNDER NPA

REF: A. OTTAWA 429
[B](#). OTTAWA 0134
[C](#). 04 OTTAWA 3414

Classified By: Minister Counselor for Economic Affairs Michael F. Gallagher. Reasons 1.4 (b) and (d)

[1](#)1. (C) Summary: Top Canadian officials have indicated their desire to move quickly on northern pipeline issues, providing clues on which permitting process Canada will use to authorize its section of the Alaska Gas Pipeline. In a series of meetings with a delegation led by Alaska Governor Frank Murkowski, senior Canadian government officials, including Minister of Natural Resources John Efford and Deputy Prime Minister Anne McClellan, hinted that Canada will endorse the Northern Pipeline Act (NPA) as the relevant legal authority for construction of the Canadian portion of the pipeline. Prime Minister Martin, while withholding direct comment on the merits of the NPA versus an alternative regulatory regime, pledged to move as quickly as possible to advance the project. Deputy Prime Minister McClellan also stressed the urgency for Canada to resolve a separate deadlock over the Mackenzie Valley Gas Pipeline, so that the Mackenzie delays do not impact on the Alaska line. End Summary.

[1](#)2. (U) Embassy ESTOFF accompanied a joint Alaska-Yukon delegation headed by Governor Murkowski and Yukon Premier Dennis Fentie, who paid a series of calls February 23-24 on cabinet officers and Prime Minister Martin to discuss Alaska pipeline issues. The delegation also raised the proposed Alaska-Yukon "Rails to Resources" project, which Embassy will report septel. Governor Murkowski and his staff have not cleared this message.

EFFORD TILTS TOWARDS THE NPA?

[1](#)3. (C) Minister of Natural Resources Efford told Governor Murkowski and Premier Fentie that the GOC wants to move "expeditiously" on the issue of permitting the Alaska Gas Pipeline. Efford stressed that Canada should not be the cause of any undue delays on the pipeline, especially in the wake of congressional passage late last year of \$18 billion U.S. in loan guarantees and tax credits for the pipeline's construction. Efford did not directly comment on the current stalemate between Calgary-based TransCanada Pipelines Ltd., which contends that it holds valid and exclusive certificates to construct the pipeline under the NPA, and producers ExxonMobil, BP and Conoco-Phillips, who argue that Canada's National Energy Board (NEB) already provides an alternative permitting process that would not lock them into doing business solely with TransCanada. In referring to the NPA, however, Efford commented that "it is easier to manage existing legislation." Efford said that the GOC would come to a decision within a few weeks, and that the GOC recognizes the benefits of a 48-inch pipeline. (The NPA requires a 48-inch pipeline, which can be manufactured in North America. A 2001 study of the project by the producers assumed a 52-inch pipeline, which could only come from Asia.)

[1](#)4. (C) Efford's chief of staff, Lou McGuire, proceeded to lay out further reasons why the NPA might be preferable to National Energy Board permitting, including that the GOC has been complicit in acknowledging the validity of the NPA by approving TransCanada's "pre-build," a network of gas pipelines in Alberta into which the Alaska line will eventually be connected. McGuire said that with the NPA, there is a "plan on the table," and criticized the producers for failing to develop a credible alternative.

PM AND DPM VOW NOT TO DELAY THE PROCESS

[1](#)5. (C) In a separate meeting, Prime Minister Martin and Deputy Prime Minister McClellan told Governor Murkowski and Premier Fentie that the GOC would soon move decisively on the Alaska Gas Pipeline permitting issue. The Prime Minister did not appear to be familiar with relative merits of the NPA

versus the NEB, but Deputy Prime Minister McClellan commented that the NPA "is a more streamlined process." McClellan also said that she hoped that the stakeholders could resolve their differences and work together, but repeated Efford's comment that a GOC decision would be forthcoming in two to three weeks. The Prime Minister told Governor Murkowski that the GOC "will do whatever the hell we have to do" to get the project moving.

MACKENZIE, ALASKA, AND THE DEH CHO BAND

16. (C) In response to a question from Governor Murkowski, Deputy Prime Minister McClellan expressed frustration with the slow progress of negotiations with the Mackenzie Valley's Deh Cho band. Along among the aboriginal groups in the Mackenzie Valley, the Deh Cho have yet to endorse the Mackenzie Valley Gas Pipeline. When completed, the line will run from Inuvik in the Northwest Territories through the Mackenzie Valley to Alberta, where a large portion of the gas may eventually be used to supply energy and feedstock in the oilsands. McClellan opined that Deh Cho leader Herb Norwegian appears to have overplayed his hand in holding out for more benefits, and that some of the other Deh Cho leaders are becoming impatient over the delays. McClellan expressed concern that if there is progress on the Alaska line but not Mackenzie Valley, Alaska could end up being built first and delay Mackenzie by a decade or more. (There is an industry consensus that the Mackenzie Valley line should be built first, and then Alaska, but that there are insufficient labor and resources to build the two lines simultaneously.) McClellan said the GOC "may need to play hardball" with the Deh Cho and exercise GOC authority over the recalcitrant band.

COMMENT

17. (C) At the risk of being proved wrong in a few weeks time, we predict that the GOC will endorse the NPA as the valid permitting authority for the Alaska Gas Pipeline. Senior GOC officials appear to have concluded that they will inevitably be sued no matter what they do: by TransCanada if they abandon the NPA endorse an NEB process, or by the producers if they endorse the NPA. However reluctantly, they appear to have concluded that the NPA is nevertheless their best option. Industry officials have told us that any decision by the GOC will at least force the stakeholders to begin negotiations with each other. The way forward will be uncertain and litigious, but at least it will be a way forward.

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